FISCAL NOTE

Bill #:	HB762	**Title:**	Property tax relief by replacing state school levy with general fund for 2 years
Primary Sponsor:	Balyeat, J	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$1,116,230	$930,806
Revenue:		
General Fund	($72,037,322)	($74,051,659)
Net Impact on General Fund Balance:	($73,153,552)	($74,982,465)

- [x] Significant Local Gov. Impact
- [ ] Included in the Executive Budget
- [ ] Dedicated Revenue Form Attached
- [ ] Technical Concerns
- [ ] Significant Long-Term Impacts
- [ ] Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. HB 762 eliminates the 40-mill state equalization aid levy for tax years 2005 and 2006 (fiscal years 2006 and 2007). The proposal would also require the state to reimburse tax increment financing districts for the loss of revenue from the elimination of the state equalization aid levy during FY 2006 and FY 2007.
2. Under the provisions of the bill, along with mill levy revenue, the general fund would also lose the portion of non-levy revenue that would have been allocated to the 40-mill state equalization aid levy.
3. In addition, since property tax payments are deductible for state income tax purposes, the proposal by reducing property tax payments will increase state income tax collections.
4. The bill has an effective date of July 1, 2005 and a termination date of July 1, 2007. However, the bill has a retroactive date of December 31, 2004, impacting both property tax revenue and income tax returns for tax years 2005 and 2006 (again having corresponding fiscal year impacts of FY 2006 and FY 2007).
5. Based on Department of Revenue calculations, elimination of the 40-mill levy would *increase* income tax collections by $663,000 in FY 2006, and $666,000 in FY 2007.
6. Estimated taxable value of all property in Montana, net of taxable value within TIF increments is $1,802,508,060 in FY 2006, and $1,852,941,477 in FY 2007.
7. A mill levy of 40 mills is projected to generate $72,100,322 ($1,802,508,060 x 40 mills) in FY 2006, and $74,117,659 ($1,852,941,477 x 40 mills) in FY 2007.

8. Generally, non-levy revenue is distributed to taxing jurisdictions in which the revenue is collected. The share of the non-levy revenue for a taxing jurisdiction is based on the number of mills levied by that taxing jurisdiction, in relation to the total number of mills levied by all affected taxing jurisdictions. Under current law, approximately $650,000 in non-levy revenue would be received for the 40-mill state equalization aid levy in FY 2006 and FY 2007.
9. Under the proposal, non-levy revenue will not be received for the 40-mill state equalization aid levy in FY 2006 and FY 2007. All other mill levies will have their allocation percentage of non-levy revenue increased as a result of the elimination of the 40-mill levy. The state 55-mill portion would also increase and some of the eliminated 40-mill non-levy revenue would come back to the state via an increased 55-mill allocation portion. For purposes of this fiscal note, it is assumed that elimination of the 40-mill levy will reduce non-levy revenue to the state general fund by $600,000 each year.
10. The estimated incremental taxable value of property within all tax increment financing (TIF) districts will be $27,905,738 in FY 2006, and $23,270,153 in FY 2007.
11. Using the abovementioned assumption, a 40-mill levy assessed on the incremental taxable value within TIF districts would generate $1,116,230 ($27,905,738 x 40 mills) in property tax during FY 2006, and $930,806 ($23,270,153 x 40 mills) in property tax during FY 2007.
12. Section 1 of the proposal requires a reimbursement to tax increment-financing districts for their loss in revenue due to the elimination of the 40-mill state equalization aid levy. The amount of reimbursement paid out to TIF districts from the state general fund is equal to the loss in property tax revenue (from assumption # 9), projected to be $1,116,230 in FY 2006, and $930,806 in FY 2007.
13. The proposal by eliminating the 40-mill state equalization mill levy will *reduce* the general fund by $73,153,552 ($663,000 - $72,100,322 - $600,000 - 1,116,230) in FY 2006, and $74,982,465 ($666,000 - $74,117,659 - $600,000 - $930,806) in FY 2007.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
Transfers	$1,116,230	$930,806
Funding of Expenditures:		
General Fund (01)	$1,116,230	$930,806
Revenues:		
General Fund (01)	($72,037,322)	($74,051,659)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($73,153,552)	($74,982,465)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Per assumptions #7 and 8, as more non-levy revenue would remain at the local level, local governments would see an increase in revenue of approximately $600,000 for both FY 2006 and FY 2007.

All property that is taxable in the state would see a reduction in property tax liability. For illustration purposes, a residential class 4 home with a $120,000 full reappraisal value would see an estimated decrease in property tax liability of approximately $100 each year. In comparison, a class 9, non-generation electric property with an assessed value of $120,000 would receive an estimated decrease in property tax liability of $576 each year.

LONG-RANGE IMPACTS:
Because of the bill's sunset clause, it should have no effect to general fund revenue beyond FY 2007.